

UNITED STATES DISTRICT COURT
NORTHERN DISTRICT OF ILLINOIS
EASTERN DIVISION

JUDITH ALMENDARIZ, Individually
and On Behalf of All Others Similarly
Situated,

Plaintiff,

v.

ONESPAN INC., SCOTT CLEMENTS,
and MARK S. HOYT,

Defendants.

Case No.

CLASS ACTION COMPLAINT

JURY TRIAL DEMANDED

Plaintiff Judith Almendariz (“Plaintiff”), individually and on behalf of all other persons similarly situated, by Plaintiff’s undersigned attorneys, for Plaintiff’s complaint against Defendants, alleges the following based upon personal knowledge as to Plaintiff and Plaintiff’s own acts, and information and belief as to all other matters, based upon, *inter alia*, the investigation conducted by and through Plaintiff’s attorneys, which included, among other things, a review of the Defendants’ public documents, conference calls and announcements made by Defendants, United States (“U.S.”) Securities and Exchange Commission (“SEC”) filings, wire and press releases published by and regarding OneSpan Inc. (“OneSpan” or the “Company”), analysts’ reports and advisories about the Company, and information readily obtainable on the Internet. Plaintiff believes that substantial additional evidentiary support will exist for the allegations set forth herein after a reasonable opportunity for discovery.

NATURE OF THE ACTION

1. This is a federal securities class action on behalf of a class consisting of all persons and entities other than Defendants that purchased or otherwise acquired OneSpan securities

between May 9, 2018 and August 11, 2020, both dates inclusive (the “Class Period”), seeking to recover damages caused by Defendants’ violations of the federal securities laws and to pursue remedies under Sections 10(b) and 20(a) of the Securities Exchange Act of 1934 (the “Exchange Act”) and Rule 10b-5 promulgated thereunder, against the Company and certain of its top officials.

2. OneSpan was founded in 1991 and is headquartered in Chicago, Illinois. The Company was formerly known as VASCO Data Security International, Inc. and changed its name to OneSpan Inc. in May 2018.

3. OneSpan, together with its subsidiaries, designs, develops, and markets digital solutions for identity, security, and business productivity worldwide.

4. Throughout the Class Period, Defendants made materially false and misleading statements regarding the Company’s business, operational and compliance policies. Specifically, Defendants made false and/or misleading statements and/or failed to disclose that: (i) OneSpan had inadequate disclosure controls and procedures and internal control over financial reporting; (ii) as a result, OneSpan overstated its revenue relating to certain contracts with customers involving software licenses in its financial statements spread out over the quarters from the first quarter of 2018 to the first quarter of 2020; (iii) as a result, it was foreseeably likely that the Company would eventually have to delay one or more scheduled earnings releases, conference calls, and/or financial filings with the SEC; (iv) OneSpan downplayed the negative impacts of errors in its financial statements; (v) all the foregoing, once revealed, was foreseeably likely to have a material negative impact on the Company’s financial results and reputation; and (vi) as a result, the Company’s public statements were materially false and misleading at all relevant times.

5. On August 4, 2020, during pre-market hours, OneSpan postponed its second quarter 2020 earnings release and conference call by one week, attributing the delay to prior period

revenue recognition problems relating to certain software license contracts spread out over the quarters from the first quarter of 2018 to the first quarter of 2020. OneSpan further stated that “[t]he net contract assets that originated from a portion of these contracts in prior periods were not properly accounted for in subsequent periods, which caused overstatements of revenue.”

6. On this news, OneSpan’s common share price fell \$0.46 per share, or 1.40%, to close at \$32.50 per share on August 4, 2020.

7. Then on August 11, 2020, during after-market hours, OneSpan disclosed that it would not timely file its quarterly report for the quarter ended June 30, 2020, with the SEC; reported that same quarter year-over-year revenues had declined; and withdrew its full year 2020 earnings guidance, which the Company had affirmed one quarter earlier.

8. On this news, OneSpan’s common share price fell \$12.36 per share, or 39.62%, to close at \$18.84 per share on August 12, 2020.

9. As a result of Defendants’ wrongful acts and omissions, and the precipitous decline in the market value of the Company’s securities, Plaintiff and other Class members have suffered significant losses and damages.

JURISDICTION AND VENUE

10. The claims asserted herein arise under and pursuant to Sections 10(b) and 20(a) of the Exchange Act (15 U.S.C. §§ 78j(b) and 78t(a)) and Rule 10b-5 promulgated thereunder by the SEC (17 C.F.R. § 240.10b-5).

11. This Court has jurisdiction over the subject matter of this action pursuant to 28 U.S.C. § 1331 and Section 27 of the Exchange Act.

12. Venue is proper in this Judicial District pursuant to Section 27 of the Exchange Act (15 U.S.C. § 78aa) and 28 U.S.C. § 1391(b). OneSpan is headquartered in this Judicial District,

Defendants conduct business in this Judicial District, and a significant portion of Defendants' actions took place within this Judicial District.

13. In connection with the acts alleged in this complaint, Defendants, directly or indirectly, used the means and instrumentalities of interstate commerce, including, but not limited to, the mails, interstate telephone communications, and the facilities of the national securities markets.

PARTIES

14. Plaintiff, as set forth in the attached Certification, acquired OneSpan securities at artificially inflated prices during the Class Period and was damaged upon the revelation of the alleged corrective disclosures.

15. Defendant OneSpan is a Delaware corporation with principal executive offices located at 121 West Wacker Drive, Suite 2050, Chicago, Illinois 60601. OneSpan's securities trade in an efficient market on the NASDAQ stock market ("NASDAQ") under the ticker symbol "OSPN."

16. Defendant Scott Clements ("Clements") has served as OneSpan's Chief Executive Officer at all relevant times.

17. Defendant Mark S. Hoyt ("Hoyt") has served as OneSpan's Chief Financial Officer at all relevant times.

18. Defendants Clements and Hoyt are sometimes referred to herein as the "Individual Defendants."

19. The Individual Defendants possessed the power and authority to control the contents of OneSpan's SEC filings, press releases, and other market communications. The Individual Defendants were provided with copies of OneSpan's SEC filings and press releases

alleged herein to be misleading prior to or shortly after their issuance and had the ability and opportunity to prevent their issuance or to cause them to be corrected. Because of their positions with OneSpan, and their access to material information available to them but not to the public, the Individual Defendants knew that the adverse facts specified herein had not been disclosed to and were being concealed from the public, and that the positive representations being made were then materially false and misleading. The Individual Defendants are liable for the false statements and omissions pleaded herein.

20. OneSpan and the Individual Defendants are collectively referred to herein as “Defendants.”

SUBSTANTIVE ALLEGATIONS

Background

21. OneSpan was founded in 1991 and is headquartered in Chicago, Illinois. The Company was formerly known as VASCO Data Security International, Inc. and changed its name to OneSpan Inc. in May 2018.

22. OneSpan, together with its subsidiaries, designs, develops, and markets digital solutions for identity, security, and business productivity worldwide.

Materially False and Misleading Statements Issued During the Class Period

23. The Class Period begins on May 9, 2018. On May 8, 2018, during after-market hours, OneSpan issued a press release announcing its financial and operating results for the first quarter of 2018 (the “1Q18 Press Release”). Among other results, that press release reported that “[r]evenue for the first quarter of 2018 increased 8% to \$45.4 million from \$42.0 million in the first quarter of 2017,” and that software licenses revenue was \$16.003 million for the quarter.

24. The 1Q18 Press Release also quoted Defendant Clements, who touted, in relevant part, that OneSpan “reported record non-hardware revenue in the first quarter with strong contributions from software licenses and subscriptions”; that this “success was underscored by the doubling of [OneSpan’s] mobile security software and an increase of nearly 50% in [OneSpan’s] e-signature solutions”; and that “[s]trong software and services revenue combined with expected Q1 declines in hardware revenue contributed to a higher gross profit margin.”

25. On May 9, 2018, OneSpan filed a quarterly report on Form 10-Q with the SEC, reporting the Company’s financial and operating results for the quarter ended March 31, 2018 (the “1Q18 10-Q”). The 1Q18 10-Q affirmed the Company’s revenue results reported in the 1Q18 Press Release, including the figure reported for software licenses revenue.

26. Additionally, with respect to how the Company accounts for license revenue, the 1Q18 10-Q represented, in relevant part, that “[r]evenue from the sale of software licensing is recorded upon the latter of when the customer receives the ability to access the software or when they are legally allowed to use the software”; that “[n]o significant obligations or contingencies exist with regard to delivery, customer acceptance or rights of return at the time revenue is recognized”; that “[c]ustomer payments normally correspond with delivery for perpetual licenses”; that, “[f]or term licenses, payments are either on installment or in advance”; that Defendants “have determined that, consistent with [their] conclusion under prior revenue recognition rules, [they] act as the principal with respect to the satisfaction of the related performance obligation and record the corresponding revenue on a gross basis from these transactions”; and that “[t]he fees paid to the third parties are recognized as a component of cost of sales when the revenue is recognized.”

27. With respect to how OneSpan recognized revenue following the Company’s adoption of Accounting Standards Update No. 2014-09 “*Revenue from Contracts with*

Customers” (FASB Accounting Standards Codification (ASC) Topic 606, or “Topic 606”), the 1Q18 10-Q stated, in relevant part, that Defendants “determine revenue recognition through . . . [i]dentification of the contract, or contracts, with a customer,” “[i]dentification of the performance obligations in the contract,” “[d]etermination of the transaction price,” “[a]llocation of the transaction price to the performance obligations in the contract,” and “[r]ecognition of revenue when, or as, [they] satisfy a performance obligation”; that “[r]evenues are recognized when control of the promised goods or services is transferred to [OneSpan’s] customers, in an amount that reflects the consideration [Defendants] expect to be entitled to in exchange for those products or services, which excludes any sales incentives and amounts collected on behalf of third parties”; that “[t]axes assessed by a governmental authority that are both imposed on and concurrent with a specific revenue-producing transaction, that are collected by the Company from a customer, are excluded from revenue”; and that “[s]hipping and handling costs associated with outbound freight after control over a product has transferred to a customer are accounted for as a fulfillment cost and are in *[sic]* included in cost of revenues.”

28. With respect to OneSpan’s disclosure controls and procedures, the 1Q18 10-Q represented, in relevant part, that OneSpan’s “management, with the participation of [OneSpan’s] Chief Executive Officer and Chief Financial Officer . . . conducted an evaluation of the effectiveness of [the Company’s] disclosure controls and procedures . . . as of the end of the period covered by this Quarterly Report on Form 10-Q”; that “[d]isclosure controls and procedures include, without limitation, controls and procedures designed to ensure . . . the information required to be disclosed by [Defendants] in [OneSpan’s] reports that [Defendants] file or submit under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the [SEC]’s rules and forms,” as well as that “information required to be disclosed by

[Defendants] in [their] reports that [they] file or submit under the Exchange Act is accumulated and communicated to [OneSpan's] management, including [the] principal executive and principal financial officers, or persons performing similar functions, as appropriate to allow timely decisions regarding required disclosure"; and that OneSpan's "disclosure controls and procedures are designed to provide reasonable assurance of achieving their objectives."

29. With respect to changes in internal controls, if any, that occurred during the quarter covered by the 1Q18 10-Q, the 1Q18 10-Q stated, in relevant part, that, "[e]ffective January 1, 2018, [OneSpan] adopted Accounting Standards Codification 606 ('ASC 606'), 'Revenue from Contracts with Customers'"; that "[c]hanges were made to the relevant business processes and the related control activities in order to monitor and maintain appropriate controls over financial reporting"; that "[t]hese included the development of new entity-wide policies based on the five-step model provided in the revenue recognition standard, new training, ongoing contract review requirements, and gathering of information provided for disclosures"; and that, "[o]ther than the changes noted above, there were no changes in [OneSpan's] internal control over financial reporting during the quarter ended March 31, 2018 that have materially affected, or are reasonably likely to materially affect, [the Company's] internal control over financial reporting."

30. Additionally, the 1Q18 10-Q contained generic, boilerplate representations regarding the risks inherent in "all control systems." Specifically, the 1Q18 10-Q represented, in relevant part, that OneSpan's "management, including [its] Chief Executive Officer and Chief Financial Officer, do not expect that [the Company's] disclosure controls and procedures or internal control over financial reporting will prevent all error and all fraud"; that "[a] control system, no matter how well designed and implemented, can provide only reasonable, not absolute, assurance that the control system's objectives will be met"; that "the design of a control system

must reflect the fact that there are resource constraints, and the benefits of controls must be considered relative to their costs”; that, “[b]ecause of the inherent limitations in all control systems, no evaluation of controls can provide absolute assurance that all control issues and instances of fraud, if any, within a company are detected”; that “[t]he inherent limitations include the realities that judgments in decision-making can be faulty, and that breakdowns can occur because of simple errors or mistakes”; that “[c]ontrols can also be circumvented by the individual acts of some persons, by collusion of two or more people, or by management override of the controls”; that “[t]he design of any system of controls is based in part on certain assumptions about the likelihood of future events, and there can be no assurance that any design will succeed in achieving its stated goals under all potential future conditions”; that “[p]rojections of any evaluation of controls’ effectiveness to future periods are subject to risks”; that, “[o]ver time, controls may become inadequate because of changes in conditions or deterioration in the degree of compliance with policies or procedures”; and that, “[b]ecause of the inherent limitations in a cost-effective control system, misstatements due to error or fraud may occur and may not be detected.” Plainly, the foregoing risk warnings were generic, catch-all provisions that were not tailored to OneSpan’s actual known risks regarding the Company’s calculation of revenue for contracts with customers involving software licenses.

31. Appended as exhibits to the 1Q18 10-Q were signed certifications pursuant to the Sarbanes-Oxley Act of 2002 (“SOX”), wherein the Individual Defendants certified that “[t]he [1Q18 10-Q] fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended,” and that “[t]he information contained in the [1Q18 10-Q] fairly presents, in all material respects, the financial condition and results of operations of the [Company].”

32. On July 26, 2018, OneSpan issued a press release announcing its financial and operating results for the second quarter of 2018 (the “2Q18 Press Release”). Among other results, that press release reported that “[r]evenue for the second quarter of 2018 was \$49.6 million, an increase of 8% from \$45.7 million for the second quarter of 2017”; that “[r]evenue for the first six months of 2018 was \$95.0 million, an increase of 8% from \$87.7 million for the first six months of 2017”; and that software licenses revenue was \$10.410 million and \$26.413 million for the three and six months ended June 30, 2018, respectively.

33. The 2Q18 Press Release also quoted Defendant Clements, who touted, in relevant part, that “[t]he second quarter marked a significant turning point for OneSpan™, with a global rebrand, the launch of [the Company’s] Trusted Identity platform and the acquisition of identity verification innovator, Dealflo,” each of which that “was executed in support of [OneSpan’s] software focused growth strategy”; and that, “[d]uring the quarter, [OneSpan] benefitted from strong growth in [*inter alia*] . . . increased software licenses.”

34. On August 3, 2018, OneSpan filed a quarterly report on Form 10-Q with the SEC, reporting the Company’s financial and operating results for the quarter ended June 30, 2018 (the “2Q18 10-Q”). The 2Q18 10-Q affirmed the Company’s revenue results reported in the 2Q18 Press Release, including the figures reported for software licenses revenue. Additionally, the 2Q18 10-Q contained substantively the same statements as referenced in ¶¶ 26-28 and 30, *supra*.

35. The 2Q18 10-Q also represented that “[t]here were no changes in [OneSpan’s] internal control over financial reporting during the three months ended June 30, 2018 that have materially affected, or are reasonably likely to materially affect, [the Company’s] internal control over financial reporting.”

36. Appended as exhibits to the 2Q18 10-Q were substantively the same SOX certifications as referenced in ¶ 31, *supra*, signed by the Individual Defendants.

37. On October 30, 2018, OneSpan issued a press release announcing its financial and operating results for the third quarter of 2018 (the “3Q18 Press Release”). Among other results, that press release reported that “[r]evenue for the third quarter of 2018 was \$52.5 million, an increase of 3% from \$51.1 million for the third quarter of 2017”; that “[r]evenue for the first nine months of 2018 was \$147.5 million, an increase of 6% from \$138.8 million for the first nine months of 2017”; and that software licenses revenue was \$9.826 million and \$36.239 million for the three and nine months ended September 30, 2018, respectively.

38. On November 2, 2018, OneSpan filed a quarterly report on Form 10-Q with the SEC, reporting the Company’s financial and operating results for the quarter ended September 30, 2018 (the “3Q18 10-Q”). The 3Q18 10-Q affirmed the Company’s revenue results reported in the 3Q18 Press Release, including the figures reported for software licenses revenue. Additionally, the 3Q18 10-Q contained substantively the same statements as referenced in ¶¶ 26-28, 30, and 35, *supra*.

39. Appended as exhibits to the 3Q18 10-Q were substantively the same SOX certifications as referenced in ¶ 31, *supra*, signed by the Individual Defendants.

40. On February 19, 2019, OneSpan issued a press release announcing its financial and operating results for the fourth quarter and full year of 2018 (the “4Q/FY18 Press Release”). Among other results, that press release reported that “[r]evenue for the fourth quarter of 2018 was \$64.8 million, an increase of 19% from \$54.5 million for the fourth quarter of 2017”; that “[r]evenue for the full year 2018 was \$212.3 million, an increase of 10% from \$193.3 million for

the full year 2017”; and that software licenses revenue was \$11.178 million and \$47.417 million for the three and twelve months ended December 31, 2018, respectively.

41. The 4Q/FY18 Press Release also quoted Defendant Clements, who touted, in relevant part, that OneSpan “had a very strong fourth quarter with revenue up 19% on solid contributions across our portfolio of [*inter alia*] software,” and that “mobile security software license revenue grew more than 50%.”

42. On March 15, 2019, OneSpan filed an annual report on Form 10-K with the SEC, reporting the Company’s financial and operating results for the quarter and year ended December 31, 2018 (the “2018 10-K”). The 2018 10-K affirmed the Company’s revenue results reported in the 4Q/FY18 Press Release, including the figures reported for software licenses revenue. Additionally, the 2018 10-K contained substantively the same statements as referenced in ¶¶ 26-28, 30, and 35, *supra*.

43. While acknowledging that OneSpan’s “disclosure controls and procedures were not effective as of December 31, 2018,” because of a “material weakness in [the Company’s] internal control over financial reporting,” and that “the Company’s internal control over financial reporting was not effective . . . as of December 31, 2018, due to the material weakness,” the 2018 10-K simultaneously downplayed the impact of this deficiency by representing that “[t]hese control deficiencies led to immaterial misstatements . . . some of which were corrected by the Company prior to the issuance of the December 31, 2018 consolidated financial statements.”

44. The 2018 10-K also downplayed the future impact or occurrence of future deficiencies by touting various remedial measures Defendants had implemented to cure these deficiencies, stating, in relevant part, that, “[d]uring the three months ended December 31, 2018, the Company initiated its remediation plan related to the material weakness that was identified in

2018”; that Defendants “[h]ave hired, and plan to continue hiring, additional accounting personnel with the requisite technical knowledge with respect to revenue recognition and internal control over financial reporting”; that Defendants “will consider use of third party resources to ensure [they] have a sufficient complement of resources”; that Defendants “[w]ill conduct an expanded training program for [their] new and existing personnel on internal control over financial reporting and accounting for revenue recognition”; that “[m]anagement will complete the implementation of a new comprehensive worldwide enterprise resource planning (ERP) system, effective January 1, 2019,” which “will improve and enhance the Company’s processes by increasing the level of automation, which is expected improve the efficiency and effectiveness of certain financial reporting and business processes”; that Defendants “[d]esign, implement and operate effective process-level controls throughout each of the processes in which there were ineffectively designed and implemented controls during 2018”; that Defendants “[d]esign and implement an effective continuous risk assessment processes to monitor changes that could significantly impact [their] internal control over financial reporting”; and that Defendants “expect remediation of the material weakness will be completed in fiscal year 2019.”

45. Appended as exhibits to the 2018 10-K were substantively the same SOX certifications as referenced in ¶ 31, *supra*, signed by the Individual Defendants.

46. On May 7, 2019, OneSpan issued a press release announcing its financial and operating results for the first quarter of 2019 (the “1Q19 Press Release”). Among other results, that press release reported that “[r]evenue for the first quarter of 2019 was \$47.6 million, an increase of 5% from \$45.4 million for the first quarter of 2018,” and that software licenses revenue was \$7.571 million for the quarter.

47. That same day, OneSpan filed a quarterly report on Form 10-Q with the SEC, reporting the Company's financial and operating results for the quarter ended March 31, 2019 (the "1Q19 10-Q"). The 1Q19 10-Q affirmed the Company's revenue results reported in the 1Q19 Press Release, including the figure reported for software licenses revenue. Additionally, the 1Q19 10-Q contained substantively the same statements as referenced in ¶¶ 26-28, 30, and 35, *supra*.

48. While acknowledging that a material weakness still existed in the Company's disclosure controls and procedures and internal control over financial reporting, the 1Q19 10-Q continued to downplay this deficiency by touting the Company's remediation plan as described in the 2018 10-K, and by assuring investors that, "[a]dditionally, the Company concluded the implementation of a new global enterprise resource planning ('ERP') system during the three months ended March 31, 2019," which "has replaced [OneSpan's] existing operating and financial systems and is designed to accurately maintain the Company's financial records, enhance operational functionality, and provide timely information to the Company's management team related to the operation of the business."

49. The 1Q19 10-Q further assured investors that Defendants "also implemented internal controls to ensure [they] adequately evaluated [their] contracts and properly assessed the impact of ASC 842 to facilitate the adoption on January 1, 2019, as well as [OneSpan's] on-going accounting."

50. Appended as exhibits to the 1Q19 10-Q were substantively the same SOX certifications as referenced in ¶ 31, *supra*, signed by the Individual Defendants.

51. On July 25, 2019, OneSpan issued a press release announcing its financial and operating results for the second quarter of 2019 (the "2Q19 Press Release"). Among other results, that press release reported that "[r]evenue for the second quarter of 2019 was \$56.2 million, an

increase of 13% from \$49.6 million for the second quarter of 2018”; that “[r]evenue for the first six months of 2019 was \$103.8 million, an increase of 9% from \$95.0 million for the first six months of 2018”; and that software licenses revenue was \$11.078 million and \$18.649 million for the three and six months ended June 30, 2019, respectively.

52. On July 31, 2019, OneSpan filed a quarterly report on Form 10-Q with the SEC, reporting the Company’s financial and operating results for the quarter ended June 30, 2019 (the “2Q19 10-Q”). The 2Q19 10-Q affirmed the Company’s revenue results reported in the 2Q19 Press Release, including the figures reported for software licenses revenue. Additionally, the 2Q19 10-Q contained substantively the same statements as referenced in ¶¶ 28, 30, 35, and 48, *supra*.

53. Additionally, with respect to relevant accounting measures, the 2Q19 10-Q represented, in relevant part, that, “[e]xcept for the accounting policies related to lease accounting . . . there have been no changes to significant accounting policies described in [2018 10-K] . . . that have had a material impact on the Company’s condensed consolidated financial statements and related notes.”

54. Appended as exhibits to the 2Q19 10-Q were substantively the same SOX certifications as referenced in ¶ 31, *supra*, signed by the Individual Defendants.

55. On October 29, 2019, OneSpan issued a press release announcing its financial and operating results for the third quarter of 2019 (the “3Q19 Press Release”). Among other results, that press release reported that “[r]evenue for the third quarter of 2019 was \$79.7 million, an increase of 52% from \$52.5 million for the third quarter of 2018”; that “[r]evenue for the first nine months of 2019 was \$183.6 million, an increase of 24% from \$147.5 million for the first nine months of 2018”; and that software licenses revenue was \$19.154 million and \$37.803 million for the three and nine months ended September 30, 2019, respectively.

56. On October 30, 2019, OneSpan filed a quarterly report on Form 10-Q with the SEC, reporting the Company's financial and operating results for the quarter ended September 30, 2019 (the "3Q19 10-Q"). The 3Q19 10-Q affirmed the Company's revenue results reported in the 3Q19 Press Release, including the figures reported for software licenses revenue. Additionally, the 3Q19 10-Q contained substantively the same statements as referenced in ¶¶ 28, 30, 35, 48, and 53, *supra*.

57. Appended as exhibits to the 3Q19 10-Q were substantively the same SOX certifications as referenced in ¶ 31, *supra*, signed by the Individual Defendants.

58. On March 3, 2020, OneSpan issued a press release announcing its financial and operating results for the fourth quarter and full year of 2019 (the "4Q/FY19 Press Release"). Among other results, that press release reported that "[r]evenue for the fourth quarter of 2019 was \$71.0 million, an increase of 10% from \$64.8 million for the fourth quarter of 2018"; that "[r]evenue for the full year 2019 was \$254.6 million, an increase of 20% from \$212.3 million for the full year 2018"; and that software licenses revenue was \$19.365 million and \$57.168 million for the three and twelve months ended December 31, 2019, respectively.

59. The 4Q/FY19 Press Release also quoted Defendant Clements, who touted, in relevant part, that OneSpan's "transformation continues to yield positive results as [the Company] enjoyed an impressive fourth quarter with [*inter alia*] software license revenue up 73% . . . contributing to total software revenue growth of 63%"; that "[t]otal revenue increased 20% to \$255 million, [the Company's] highest year ever"; and that "total software revenue grew 26%."

60. On March 16, 2020, OneSpan filed an annual report on Form 10-K with the SEC, reporting the Company's financial and operating results for quarter and year ended December 31, 2019 (the "2019 10-K"). The 2019 10-K affirmed the Company's full year revenue results reported in the 4Q/FY19 Press Release, including the full year figure reported for software licenses revenue.

Additionally, the 2019 10-K contained substantively the same statements as referenced in ¶¶ 26-28 and 30, *supra*.

61. The 2019 10-K also represented that OneSpan had remediated the material weakness in the Company's internal control over financial reporting identified in the 2018 10-K. Specifically, in its discussion of changes of internal control over financial reporting, the 2019 10-K asserted, in relevant part, that, "[d]uring the three months ended December 31, 2019, the Company finalized its remediation plan related to the material weakness that was disclosed in [the 2018 10-K]"; that Defendants "are satisfied that the material weakness in internal control over financial reporting identified as of December 31, 2018, has been remediated"; that Defendants "[h]ired additional accounting personnel with the requisite technical knowledge with respect to revenue recognition and internal control over financial reporting and have used third party resources to ensure we have a sufficient complement of resources"; that Defendants "[c]onducted an expanded training program for [their] new and existing personnel on internal control over financial reporting, accounting for revenue recognition, and other relevant accounting topics"; that Defendants "[c]oncluded the implementation of a new global enterprise resource planning ('ERP') system," which "replaced [OneSpan's] previous operating and financial systems and is designed to accurately maintain the Company's financial records, enhance operational functionality, and provide timely information to the Company's management team related to the operation of the business"; that Defendants "[d]esigned, implemented and operated effective process-level controls throughout each of the processes in which there were ineffectively designed and implemented controls as of December 31, 2018"; that Defendants "[d]esigned and implemented an effective continuous risk assessment processes to monitor changes that could significantly impact [OneSpan's] internal control over financial reporting"; and that, "[e]xcept for

the changes in connection with [Defendants'] finalization of the remediation plan discussed above, there have been no other changes in [OneSpan's] internal control over financial reporting . . . that occurred during the fourth quarter of 2019 that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting."

62. Accordingly, the 2019 10-K also represented, in relevant part, that, based upon the Individual Defendants' evaluation, "management have concluded that the Company's disclosure controls and procedures are effective as of December 31, 2019," and that "[m]anagement's evaluation of [OneSpan's] internal control over financial reporting determined that the Company's internal control over financial reporting was effective . . . as of December 31, 2019."

63. Appended as exhibits to the 2019 10-K were substantively the same SOX certifications as referenced in ¶ 31, *supra*, signed by the Individual Defendants.

64. On May 5, 2020, OneSpan issued a press release announcing its financial and operating results for the first quarter of 2020 (the "1Q20 Press Release"). Among other results, that press release reported that "[r]evenue for the first quarter of 2020 was \$56.5 million, an increase of 19% from \$47.6 million for the first quarter of 2019," and that software licenses revenue was \$18.522 million for the quarter. The 1Q20 Press Release also provided full year 2020 financial guidance of "[r]evenue in the range of \$255 million to \$265 million" and "[a]djusted EBITDA in the range of \$24 million to \$28 million."

65. On May 7, 2020, OneSpan filed a quarterly report on Form 10-Q with the SEC, reporting the Company's financial and operating results for the quarter ended March 31, 2020 (the "1Q20 10-Q"). The 1Q20 10-Q affirmed the Company's revenue results reported in the 1Q20 Press Release, including the figure reported for software licenses revenue. Additionally, the 1Q20 10-Q contained substantively the same statements as referenced in ¶¶ 28, 30, and 35, *supra*.

66. Additionally, with respect to relevant accounting measures, the 1Q20 10-Q represented, in relevant part, that, “[e]xcept for certain changes which resulted from the adoption of ASU 2016-13, there have been no changes to the significant accounting policies described in the [2019 10-K] that have had a material impact on the Company’s condensed consolidated financial statements and related notes..”

67. The statements referenced in ¶¶ 23-66, *supra*, were materially false and misleading because Defendants made false and/or misleading statements, as well as failed to disclose material adverse facts about the Company’s business, operational and compliance policies. Specifically, Defendants made false and/or misleading statements and/or failed to disclose that: (i) OneSpan had inadequate disclosure controls and procedures and internal control over financial reporting; (ii) as a result, OneSpan overstated its revenue relating to certain contracts with customers involving software licenses in its financial statements spread out over the quarters from the first quarter of 2018 to the first quarter of 2020; (iii) as a result, it was foreseeably likely that the Company would eventually have to delay one or more scheduled earnings releases, conference calls, and/or financial filings with the SEC; (iv) OneSpan downplayed the negative impacts of errors in its financial statements; (v) all the foregoing, once revealed, was foreseeably likely to have a material negative impact on the Company’s financial results and reputation; and (vi) as a result, the Company’s public statements were materially false and misleading at all relevant times.

The Truth Begins to Emerge

68. On August 4, 2020, during pre-market hours, OneSpan issued a press release announcing that it was postponing its second quarter 2020 earnings release and conference call by one week, attributing the delay to prior period revenue recognition problems relating to certain

software license contracts spread out over the quarters from the first quarter of 2018 to the first quarter of 2020. Specifically, that press release stated, in relevant part:

OneSpan . . . today announced it has changed the date it plans to release the company's second quarter 2020 earnings release and hold its earnings conference call, previously scheduled for August 4, 2020.

During the second quarter of 2020, OneSpan identified immaterial errors that originated in prior periods. The errors relate to certain contracts with customers involving software licenses. The net contract assets that originated from a portion of these contracts in prior periods were not properly accounted for in subsequent periods, which caused overstatements of revenue. The current estimated cumulative overstatements of revenue through March 31, 2020 total between \$2 million and \$2.5 million and were spread out over the quarters from Q1 2018 to Q1 2020, representing less than 0.5% of total revenue in that time frame. The Company currently believes these errors to be immaterial. To correct these immaterial errors related to prior periods, the Company expects to adjust the prior period revenue and related amounts in its Form 10-Q for Q2 2020 and future filings with the SEC. The Company is evaluating the impact on its prior determination that internal control over financial reporting was effective as of December 31, 2019.

OneSpan plans to report its second quarter 2020 financial results on Tuesday, August 11, 2020, after the market close. The Company will host a conference call to discuss its second quarter 2020 financial results on the same day at 4:30 p.m. Eastern Time.

69. On this news, OneSpan's common share price fell \$0.46 per share, or 1.40%, to close at \$32.50 per share on August 4, 2020.

70. Then, on August 11, 2020, during after-market hours, OneSpan issued a press release announcing its financial and operating results for the second quarter of 2020. That press release reported, among other results, that same quarter year-over-year revenues had declined, and that the Company was withdrawing its full year 2020 earnings guidance, which the Company had affirmed one quarter earlier. Specifically, that press release stated, in relevant part:

Second Quarter 2020 Financial Highlights[]

- Revenue for the second quarter of 2020 was \$55.0 million, a decrease of 2% from \$56.2 million for the second quarter of 2019. Revenue for the first six

months of 2020 was \$111.3 million, an increase of 8% from \$103.3 million for the first six months of 2019.

* * *

Full Year 2020 Outlook

Given the increased uncertainty about the impact of the pandemic on the global economy and our customers, the Company believes it prudent to withdraw its previously issued full-year guidance. Management will provide additional commentary during its second quarter earnings conference call.

71. That same day, also during after-market hours, OneSpan filed a notification of inability to timely file Form 10-Q on Form NT 10-Q with the SEC, disclosing that the Company could not timely file its quarterly report for the quarter ended June 30, 2020, by the original due date of August 10, 2020, because of the “immaterial errors” identified in the Company’s August 4, 2020 press release. Specifically, the Form NT 10-Q stated, in relevant part:

OneSpan . . . has determined that it is unable to file its Quarterly Report on Form 10-Q for the quarter ended June 30, 2020 (the “Form 10-Q”) by August 10, 2020, the original due date for such filing, without unreasonable effort or expense because it requires additional time to complete its financial statements. As previously announced, the Company identified immaterial errors related to certain contracts with customers involving term-based software licenses. The net contract assets that originated from a portion of these contracts in prior periods were not properly accounted for in subsequent periods, which caused overstatements of revenue. The cumulative overstatements of revenue total \$2.2 million over the period from the first quarter in the year ended December 31, 2018 to the quarter ended March 31, 2020, representing less than 0.5% of total revenue in that time frame.

The Company believes these errors to be immaterial. To correct these immaterial errors related to prior periods, the Company expects to adjust the prior period revenue and related amounts in its Form 10-Q and future filings with the SEC.

72. Following the issuance of the Company’s August 11, 2020 press release and the filing of the Form NT 10-Q, OneSpan’s common share price fell \$12.36 per share, or 39.62%, to close at \$18.84 per share on August 12, 2020.

73. As a result of Defendants' wrongful acts and omissions, and the precipitous decline in the market value of the Company's securities, Plaintiff and other Class members have suffered significant losses and damages.

PLAINTIFF'S CLASS ACTION ALLEGATIONS

74. Plaintiff brings this action as a class action pursuant to Federal Rule of Civil Procedure 23(a) and (b)(3) on behalf of a Class, consisting of all those who purchased or otherwise acquired OneSpan securities during the Class Period (the "Class"); and were damaged upon the revelation of the alleged corrective disclosures. Excluded from the Class are Defendants herein, the officers and directors of the Company, at all relevant times, members of their immediate families and their legal representatives, heirs, successors or assigns and any entity in which Defendants have or had a controlling interest.

75. The members of the Class are so numerous that joinder of all members is impracticable. Throughout the Class Period, OneSpan securities were actively traded on the NASDAQ. While the exact number of Class members is unknown to Plaintiff at this time and can be ascertained only through appropriate discovery, Plaintiff believes that there are hundreds or thousands of members in the proposed Class. Record owners and other members of the Class may be identified from records maintained by OneSpan or its transfer agent and may be notified of the pendency of this action by mail, using the form of notice similar to that customarily used in securities class actions.

76. Plaintiff's claims are typical of the claims of the members of the Class as all members of the Class are similarly affected by Defendants' wrongful conduct in violation of federal law that is complained of herein.

77. Plaintiff will fairly and adequately protect the interests of the members of the Class and has retained counsel competent and experienced in class and securities litigation. Plaintiff has no interests antagonistic to or in conflict with those of the Class.

78. Common questions of law and fact exist as to all members of the Class and predominate over any questions solely affecting individual members of the Class. Among the questions of law and fact common to the Class are:

- whether the federal securities laws were violated by Defendants' acts as alleged herein;
- whether statements made by Defendants to the investing public during the Class Period misrepresented material facts about the business, operations and management of OneSpan;
- whether the Individual Defendants caused OneSpan to issue false and misleading financial statements during the Class Period;
- whether Defendants acted knowingly or recklessly in issuing false and misleading financial statements;
- whether the prices of OneSpan securities during the Class Period were artificially inflated because of the Defendants' conduct complained of herein; and
- whether the members of the Class have sustained damages and, if so, what is the proper measure of damages.

79. A class action is superior to all other available methods for the fair and efficient adjudication of this controversy since joinder of all members is impracticable. Furthermore, as the damages suffered by individual Class members may be relatively small, the expense and burden of individual litigation make it impossible for members of the Class to individually redress the wrongs done to them. There will be no difficulty in the management of this action as a class action.

80. Plaintiff will rely, in part, upon the presumption of reliance established by the fraud-on-the-market doctrine in that:

- Defendants made public misrepresentations or failed to disclose material facts during the Class Period;
- the omissions and misrepresentations were material;
- OneSpan securities are traded in an efficient market;
- the Company's shares were liquid and traded with moderate to heavy volume during the Class Period;
- the Company traded on the NASDAQ and was covered by multiple analysts;
- the misrepresentations and omissions alleged would tend to induce a reasonable investor to misjudge the value of the Company's securities; and
- Plaintiff and members of the Class purchased, acquired and/or sold OneSpan securities between the time the Defendants failed to disclose or misrepresented material facts and the time the true facts were disclosed, without knowledge of the omitted or misrepresented facts.

81. Based upon the foregoing, Plaintiff and the members of the Class are entitled to a presumption of reliance upon the integrity of the market.

82. Alternatively, Plaintiff and the members of the Class are entitled to the presumption of reliance established by the Supreme Court in *Affiliated Ute Citizens of the State of Utah v. United States*, 406 U.S. 128, 92 S. Ct. 2430 (1972), as Defendants omitted material information in their Class Period statements in violation of a duty to disclose such information, as detailed above.

COUNT I

(Violations of Section 10(b) of the Exchange Act and Rule 10b-5 Promulgated Thereunder Against All Defendants)

83. Plaintiff repeats and re-alleges each and every allegation contained above as if fully set forth herein.

84. This Count is asserted against Defendants and is based upon Section 10(b) of the Exchange Act, 15 U.S.C. § 78j(b), and Rule 10b-5 promulgated thereunder by the SEC.

85. During the Class Period, Defendants engaged in a plan, scheme, conspiracy and course of conduct, pursuant to which they knowingly or recklessly engaged in acts, transactions, practices and courses of business which operated as a fraud and deceit upon Plaintiff and the other members of the Class; made various untrue statements of material facts and omitted to state material facts necessary in order to make the statements made, in light of the circumstances under which they were made, not misleading; and employed devices, schemes and artifices to defraud in connection with the purchase and sale of securities. Such scheme was intended to, and, throughout the Class Period, did: (i) deceive the investing public, including Plaintiff and other Class members, as alleged herein; (ii) artificially inflate and maintain the market price of OneSpan securities; and (iii) cause Plaintiff and other members of the Class to purchase or otherwise acquire OneSpan securities and options at artificially inflated prices. In furtherance of this unlawful scheme, plan and course of conduct, Defendants, and each of them, took the actions set forth herein.

86. Pursuant to the above plan, scheme, conspiracy and course of conduct, each of the Defendants participated directly or indirectly in the preparation and/or issuance of the quarterly and annual reports, SEC filings, press releases and other statements and documents described above, including statements made to securities analysts and the media that were designed to influence the market for OneSpan securities. Such reports, filings, releases and statements were materially false and misleading in that they failed to disclose material adverse information and misrepresented the truth about OneSpan's finances and business prospects.

87. By virtue of their positions at OneSpan, Defendants had actual knowledge of the materially false and misleading statements and material omissions alleged herein and intended thereby to deceive Plaintiff and the other members of the Class, or, in the alternative, Defendants acted with reckless disregard for the truth in that they failed or refused to ascertain and disclose

such facts as would reveal the materially false and misleading nature of the statements made, although such facts were readily available to Defendants. Said acts and omissions of Defendants were committed willfully or with reckless disregard for the truth. In addition, each Defendant knew or recklessly disregarded that material facts were being misrepresented or omitted as described above.

88. Information showing that Defendants acted knowingly or with reckless disregard for the truth is peculiarly within Defendants' knowledge and control. As the senior managers and/or directors of OneSpan, the Individual Defendants had knowledge of the details of OneSpan's internal affairs.

89. The Individual Defendants are liable both directly and indirectly for the wrongs complained of herein. Because of their positions of control and authority, the Individual Defendants were able to and did, directly or indirectly, control the content of the statements of OneSpan. As officers and/or directors of a publicly-held company, the Individual Defendants had a duty to disseminate timely, accurate, and truthful information with respect to OneSpan's businesses, operations, future financial condition and future prospects. As a result of the dissemination of the aforementioned false and misleading reports, releases and public statements, the market price of OneSpan securities was artificially inflated throughout the Class Period. In ignorance of the adverse facts concerning OneSpan's business and financial condition which were concealed by Defendants, Plaintiff and the other members of the Class purchased or otherwise acquired OneSpan securities at artificially inflated prices and relied upon the price of the securities, the integrity of the market for the securities and/or upon statements disseminated by Defendants, and were damaged thereby.

90. During the Class Period, OneSpan securities were traded on an active and efficient market. Plaintiff and the other members of the Class, relying on the materially false and misleading statements described herein, which the Defendants made, issued or caused to be disseminated, or relying upon the integrity of the market, purchased or otherwise acquired shares of OneSpan securities at prices artificially inflated by Defendants' wrongful conduct. Had Plaintiff and the other members of the Class known the truth, they would not have purchased or otherwise acquired said securities, or would not have purchased or otherwise acquired them at the inflated prices that were paid. At the time of the purchases and/or acquisitions by Plaintiff and the Class, the true value of OneSpan securities was substantially lower than the prices paid by Plaintiff and the other members of the Class. The market price of OneSpan securities declined sharply upon public disclosure of the facts alleged herein to the injury of Plaintiff and Class members.

91. By reason of the conduct alleged herein, Defendants knowingly or recklessly, directly or indirectly, have violated Section 10(b) of the Exchange Act and Rule 10b-5 promulgated thereunder.

92. As a direct and proximate result of Defendants' wrongful conduct, Plaintiff and the other members of the Class suffered damages in connection with their respective purchases, acquisitions and sales of the Company's securities during the Class Period, upon the disclosure that the Company had been disseminating misrepresented financial statements to the investing public.

COUNT II

(Violations of Section 20(a) of the Exchange Act Against The Individual Defendants)

93. Plaintiff repeats and re-alleges each and every allegation contained in the foregoing paragraphs as if fully set forth herein.

94. During the Class Period, the Individual Defendants participated in the operation and management of OneSpan, and conducted and participated, directly and indirectly, in the conduct of OneSpan's business affairs. Because of their senior positions, they knew the adverse non-public information about OneSpan's misstatement of income and expenses and false financial statements.

95. As officers and/or directors of a publicly owned company, the Individual Defendants had a duty to disseminate accurate and truthful information with respect to OneSpan's financial condition and results of operations, and to correct promptly any public statements issued by OneSpan which had become materially false or misleading.

96. Because of their positions of control and authority as senior officers, the Individual Defendants were able to, and did, control the contents of the various reports, press releases and public filings which OneSpan disseminated in the marketplace during the Class Period concerning OneSpan's results of operations. Throughout the Class Period, the Individual Defendants exercised their power and authority to cause OneSpan to engage in the wrongful acts complained of herein. The Individual Defendants therefore, were "controlling persons" of OneSpan within the meaning of Section 20(a) of the Exchange Act. In this capacity, they participated in the unlawful conduct alleged which artificially inflated the market price of OneSpan securities.

97. Each of the Individual Defendants, therefore, acted as a controlling person of OneSpan. By reason of their senior management positions and/or being directors of OneSpan, each of the Individual Defendants had the power to direct the actions of, and exercised the same to cause, OneSpan to engage in the unlawful acts and conduct complained of herein. Each of the Individual Defendants exercised control over the general operations of OneSpan and possessed the

power to control the specific activities which comprise the primary violations about which Plaintiff and the other members of the Class complain.

98. By reason of the above conduct, the Individual Defendants are liable pursuant to Section 20(a) of the Exchange Act for the violations committed by OneSpan.

PRAYER FOR RELIEF

WHEREFORE, Plaintiff demands judgment against Defendants as follows:

- A. Determining that the instant action may be maintained as a class action under Rule 23 of the Federal Rules of Civil Procedure, and certifying Plaintiff as the Class representative;
- B. Requiring Defendants to pay damages sustained by Plaintiff and the Class by reason of the acts and transactions alleged herein;
- C. Awarding Plaintiff and the other members of the Class prejudgment and post-judgment interest, as well as their reasonable attorneys' fees, expert fees and other costs; and
- D. Awarding such other and further relief as this Court may deem just and proper.

DEMAND FOR TRIAL BY JURY

Plaintiff hereby demands a trial by jury.

Dated: August 20, 2020

Respectfully submitted,

POMERANTZ LLP

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